

Edgar Filing: LEGG MASON INC - Form 8-K

LEGG MASON INC
Form 8-K
March 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 9, 2006

LEGG MASON, INC.
(Exact name of registrant as specified in charter)

MARYLAND (State or other jurisdiction of incorporation)	1-8529 (Commission File Number)	52-1200960 (I.R.S. Employer Identification No.)
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100 Light Street Baltimore, Maryland (Address of principal executive offices)	21202 (Zip Code)
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Registrant's telephone number, including area code: (410) 539-0000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement

On March 9, 2006, Legg Mason, Inc. ("Legg Mason") entered into an underwriting agreement, a copy of which is attached hereto as Exhibit 1.1, with Citigroup Global Markets Inc. (the "Underwriter") and AMAD Holdings Inc. (the "Selling Stockholder") related to the sale by the Selling Stockholder to the Underwriter of 9,000,000 shares of Legg Mason's common stock, \$0.10 par value,

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consisting of (i) 5,393,545 shares of outstanding common stock, and (ii) 3,606,455 shares of common stock issuable upon conversion of 3.606455 shares of Series A convertible preferred stock, \$10.00 par value, held by the Selling Stockholder, at a public offering price of \$125.00 per share. Delivery of and payment for the shares of common stock pursuant to such underwriting agreement will be made on or about March 15, 2006. The Selling Stockholder also granted the Underwriter an option to purchase up to an additional 1,350,000 shares of common stock, issuable upon conversion of 1.35 shares of Series A convertible preferred stock held by the Selling Stockholder, to cover over-allotments, if any. These shares are being offered and sold under a prospectus supplement filed with the Securities and Exchange Commission pursuant to Rule 424(b)(7) of the Securities Act of 1933, as amended, in connection with an offering pursuant to Legg Mason's shelf registration statement on Form S-3 (Registration No. 333-132074).

Item 9.01. Financial Statements and Exhibits

- (a) None
- (b) None
- (c) Exhibits.

Exhibit No.	Description of Exhibits
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1.1	Underwriting Agreement, dated March 9, 2006, among Legg Mason, Inc., Citigroup Global Markets Inc. and AMAD Holdings Inc.
5.1	Opinion of Thomas C. Merchant, Esq.
23.3	Consent of Thomas C. Merchant, Esq. (included in Exhibit 5.1)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LEGG MASON, INC.

By: /s/ Thomas P. Lemke

Name: Thomas P. Lemke
Title: Senior Vice President

Date: March 13, 2006

EXHIBIT INDEX

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Balance December 29, 2011

\$(346.8) 53,934,605 \$0.5 \$(376.2) \$(34.9) \$(17.3) \$81.1

Distributions to members

(76.8) (76.8)

NCM LLC equity issued for purchase of intangible asset

10.1 4.9 5.2

Income tax and other impacts of NCM LLC ownership changes

2.9 1.9 1.0

Comprehensive income, net of tax

94.0 13.4 10.6 70.0

Share-based compensation issued

551,654

Share-based compensation expense/capitalized

9.2 7.0 2.2

Cash dividends declared \$0.88 per share

(49.0) (49.0)

Balance December 27, 2012

\$(356.4) 54,486,259 \$0.5 \$(362.4) \$(70.5) \$(6.7) \$82.7

Distributions to founding members

(103.8) (103.8)

NCM LLC equity issued for purchase of intangible asset

221.6 101.4 120.2

Income tax and other impacts of NCM LLC ownership changes

(19.5) (33.2) 0.6 13.1

Issuance of shares

41.1 2,300,000 41.1

NCM, Inc. investment in NCM LLC

(41.3) (41.3)

Comprehensive income, net of tax

138.3 41.2 2.9 94.2

Share-based compensation issued

18.6 1,732,878 0.1 18.5

Share-based compensation expense/capitalized

6.0 4.2 1.8

Cash dividends declared \$0.88 per share

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(50.7)

(50.7)

Balance December 26, 2013

\$(146.1) 58,519,137 \$0.6 \$(271.7) \$(80.0) \$(3.2) \$208.2

Distributions to founding members

(79.4)		(79.4)
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NCM LLC equity issued for purchase of intangible asset

16.4	7.5	8.9
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Income tax and other impacts of NCM LLC ownership changes

0.1	(1.6)	1.7
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Comprehensive income, net of tax

73.8	13.4	2.8	57.6
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Share-based compensation issued

(0.6) 231,789 (0.6)

Share-based compensation expense/capitalized

7.8 5.3 2.5

Excess tax benefit from share-based compensation

0.1 0.1

Cash dividends declared \$1.38 per share

(80.8) (80.8)

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Balance January 1, 2015

\$(208.7) 58,750,926 \$0.6 \$(261.0) \$(147.4) \$(0.4) \$199.5

Refer to accompanying notes to Consolidated Financial Statements.

Table of Contents**NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated net income	\$ 65.6	\$ 129.8	\$ 65.3
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Deferred income tax expense	12.6	14.6	33.5
Depreciation and amortization	32.4	26.6	20.4
Non-cash share-based compensation	7.7	5.9	9.0
Excess tax benefit from share-based compensation	0.1		(0.1)
Accretion of interest on the discounted payable to founding members under tax receivable agreement	14.6	13.9	10.0
Net unrealized gain on hedging transactions			(3.0)
Impairment on investment		0.8	
Amortization of terminated derivatives	10.0	10.3	4.0
Amortization of debt issuance costs	2.8	2.8	2.4
Equity in earnings of non-consolidated entities	(0.2)		
Write-off of debt issuance costs and other non-operating items		1.2	5.9
Loss on swap terminations			26.7
Gain on sale of Fathom Events		(26.0)	
Payment for swap terminations			(63.4)
Changes in operating assets and liabilities:			
Receivables, net	2.7	(22.0)	(0.5)
Accounts payable and accrued expenses	(10.3)	6.6	4.0
Amounts due to founding members	3.0	0.9	(0.3)
Payment to founding members under tax receivable agreement	(27.1)	(10.1)	(18.2)
Income taxes and other	4.0	(2.2)	(14.1)
Net cash provided by operating activities	117.9	153.1	81.6
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(8.7)	(10.1)	(10.4)
Purchases of marketable securities	(116.8)	(135.0)	(60.0)
Proceeds from sale and maturities of marketable securities	120.8	98.1	58.0
Payment from founding members for intangible assets			0.2
Purchases of intangible assets from network affiliates	(3.0)	(8.9)	(7.2)
Proceeds from note receivable founding members	4.2		
Net cash used in investing activities	(3.5)	(55.9)	(19.4)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends	(81.0)	(49.2)	(48.7)
Proceeds from borrowings	138.0	59.0	546.0
Repayments of borrowings	(136.0)	(48.0)	(461.0)
Payment of debt issuance costs	(0.6)	(3.4)	(14.0)
Founding member integration payments	2.1	2.1	
Distributions to founding members	(77.5)	(93.8)	(78.0)
Payment of offering costs and fees		(0.2)	
Excess tax benefit from share-based compensation	(0.1)		0.1
Proceeds from stock option exercises	0.8	20.3	2.2
Repurchase of stock for restricted stock tax withholding	(1.4)	(1.7)	(2.3)

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Net cash used in financing activities	(155.7)	(114.9)	(55.7)
CHANGE IN CASH AND CASH EQUIVALENTS	(41.3)	(17.7)	6.5
Cash and cash equivalents at beginning of period	54.7	72.4	65.9
Cash and cash equivalents at end of period	\$ 13.4	\$ 54.7	\$ 72.4
Supplemental disclosure of non-cash financing and investing activity:			
Purchase of an intangible asset with NCM LLC equity	\$ 16.4	\$ 221.6	\$ 10.1
Accrued distributions to founding members	\$ 32.9	\$ 31.0	\$ 20.9
Operating segment sold under notes receivable	\$	\$ 25.0	\$
Purchase of subsidiary equity with NCM, Inc. equity	\$	\$ 41.1	\$
Increase in cost and equity method investments	\$ 1.2	\$ 0.3	\$ 0.6
(Decrease) increase in dividends not requiring cash in the period	\$ (0.2)	\$ 1.5	\$ 0.3
Write-off of property and equipment included in accrued expenses	\$ (0.4)	\$	\$
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 49.9	\$ 49.3	\$ 50.7
(Refunds) payments for income taxes, net	\$ (5.2)	\$ 4.3	\$ 5.2

Refer to accompanying notes to Consolidated Financial Statements.

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NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

National CineMedia, Inc. (NCM, Inc.) was incorporated in Delaware as a holding company with the sole purpose of becoming a member and sole manager of National CineMedia, LLC (NCM LLC), an LLC owned by NCM, Inc., American Multi-Cinema, Inc. and AMC ShowPlace Theatres, Inc. (AMC), wholly owned subsidiaries of AMC Entertainment, Inc. (AMCE), Regal Cinemas, Inc. and Regal CineMedia Holdings, LLC, wholly owned subsidiaries of Regal Entertainment Group (Regal) and Cinemark Media, Inc. and Cinemark USA, Inc., wholly owned subsidiaries of Cinemark Holdings, Inc. (Cinemark). The terms NCM , the Company or we shall, unless the context otherwise requires, be deemed to include the consolidated entity. AMC, Regal and Cinemark and their affiliates are referred to in this document as founding members . The Company operates the largest digital in-theatre network in North America, allowing NCM to sell advertising (the Services) under long-term exhibitor services agreements (ESAs) with the founding members and certain third-party theatre circuits under long-term network affiliate agreements referred to in this document as network affiliates , which have terms from three to twenty years.

As of January 1, 2015, NCM LLC had 128,294,505 common membership units outstanding, of which 58,750,926 (45.8%) were owned by NCM, Inc., 25,792,942 (20.1%) were owned by Regal, 24,556,136 (19.1%) were owned by Cinemark and 19,194,501 (15.0%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

Recent Transactions

On December 26, 2013, NCM LLC sold its Fathom Events business to a newly formed limited liability company owned 32% by each of the founding members and 4% by NCM LLC, as described further in Note 2 *Divestiture*.

On May 5, 2014, NCM, Inc. entered into the Merger Agreement to merge with Screenvision for \$375 million, consisting of \$225 million in cash and \$150 million of NCM, Inc. common stock (9,900,990 shares based on a price of \$15.15 per share). The merger consideration is subject to adjustment based upon Screenvision's Adjusted EBITDA for the twelve months ended April 30, 2014, which resulted in no adjustment and is subject to adjustment based upon Screenvision's positive working capital at closing up to a maximum of \$10 million. On November 3, 2014, the DOJ filed the DOJ Action. A trial date has been scheduled for April 13, 2015. Following the merger, NCM, Inc. will evaluate whether to contribute the Screenvision assets to NCM LLC. Although it is under no obligation to do so, upon approval of NCM, Inc.'s Board of Directors and the founding members, NCM, Inc. may contribute Screenvision assets and NCM, Inc. debt to NCM LLC in exchange for 9,900,990 NCM LLC membership units. NCM, Inc. has secured a commitment from a group of financial institutions for a \$250 million term loan to finance the \$225 million portion of the merger consideration that will be paid in cash, along with fees and expenses incurred in connection with the term loan and the merger. In addition, NCM LLC amended its senior secured credit facility to allow for the contribution of the Screenvision assets and NCM, Inc. debt to NCM LLC following the closing of the merger. The Commitment Letter and NCM LLC senior secured credit facility amendments expire on April 1, 2015. The Company is working with the merger financing bank group to extend the merger financing commitments to accommodate the litigation process.

Basis of Presentation

The Company has prepared its Consolidated Financial Statements and related notes of NCM, Inc. in accordance with accounting principles generally accepted in the United States of America (GAAP) and the

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rules and regulations of the Securities and Exchange Commission (SEC). Certain reclassifications have been made to the prior years' financial statements to conform to the current presentation (refer to Note 7 *Income Taxes*, whereby certain captions were broken out due to their significance in 2014). These reclassifications had no effect on previously reported results of operations or retained earnings.

As a result of the various related-party agreements discussed in Note 9 *Related Party Transactions*, the operating results as presented are not necessarily indicative of the results that might have occurred if all agreements were with non-related third parties.

Estimates The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to the reserve for uncollectible accounts receivable, share-based compensation, interest rate swaps and income taxes. Actual results could differ from those estimates.

Significant Accounting Policies

Accounting Period The Company has a 52-week or 53-week fiscal year ending on the first Thursday after December 25. Fiscal year 2014 contained 53 weeks. Fiscal years 2013 and 2012 contained 52 weeks. Throughout this document, the fiscal years are referred to as set forth below:

Fiscal Year Ended	Reference in this Document
January 1, 2015	2014
December 26, 2013	2013
December 27, 2012	2012

Segment Reporting Advertising is the principal business activity of the Company and is the Company's only reportable segment under the requirements of ASC 280 *Segment Reporting*. Fathom Events (prior to its sale) was an operating segment under ASC 280. The Company does not evaluate its segments on a fully allocated cost basis, nor does the Company track segment assets separately. As such, the results are not indicative of what segment results of operations would have been had it been operated on a fully allocated cost basis. The Company cautions that it would be inappropriate to assume that unallocated operating costs are incurred proportional to segment revenue or any directly identifiable segment expenses. Refer to Note 16 *Segment Reporting*.

Revenue Recognition The Company derives revenue principally from the advertising business, which includes on-screen and lobby network (LEN) advertising and lobby promotions and advertising on entertainment websites and mobile applications owned by us and other companies. Revenue is recognized when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price is fixed and determinable and collectability is reasonably assured. The Company considers the terms of each arrangement to determine the appropriate accounting treatment.

On-screen advertising consists of national and local advertising. National advertising is sold on a cost per thousand (CPM) basis, while local and regional advertising is sold on a per-screen, per-week basis. The Company recognizes national advertising as impressions (or theatre attendees) are delivered and recognizes local on-screen advertising revenue during the period in which the advertising airs. The Company recognizes revenue derived from lobby network and promotions when the advertising is displayed in theatre lobbies and recognizes revenue from branded entertainment websites and mobile applications when the online or mobile impressions are

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NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

served. The Company may make contractual guarantees to deliver a specified number of impressions to view the customers' advertising. If those contracted number of impressions are not delivered, the Company will run additional advertising to deliver the contracted impressions at a later date. The deferred portion of the revenue associated with the undelivered impressions is referred to as a make-good provision. In rare cases, the Company will make a cash refund of the portion of the contract related to the undelivered impressions. The Company defers the revenue associated with the make-good until the advertising airs to the theatre attendance specified in the advertising contract. The make-good provision is recorded within accrued expenses in the Consolidated Balance Sheets. The Company records deferred revenue when cash payments are received, or invoices are issued, in advance of revenue being earned and is classified as a current liability as it is expected to be earned within the next twelve months. Fathom Events revenue was recognized in the period in which the event was held.

Barter Transactions The Company enters into barter transactions that exchange advertising program time for products and services used principally for selling and marketing activities. The Company records barter transactions at the estimated fair value of the advertising exchanged based on fair value received for similar advertising from cash paying customers. Revenues for advertising barter transactions are recognized when advertising is provided, and products and services received are charged to expense when used. The Company limits the use of such barter transactions to necessary items and services for which it would otherwise have paid cash. Any timing differences between the delivery of the bartered revenue and the use of the bartered expense products and services are recorded through accounts receivable. Revenue from barter transactions for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 was \$1.3 million, \$1.9 million and \$3.0 million, respectively. Expense recorded from barter transactions for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 was \$1.2 million, \$2.9 million and \$1.3 million, respectively.

Operating Costs Advertising-related operating costs primarily include personnel and other costs related to advertising fulfillment, payments due to unaffiliated theatre circuits under the network affiliate agreements, and to a lesser extent, production costs of non-digital advertising.

Fathom Events operating costs include revenue share under the ESAs to the founding members and revenue share to affiliate theatres under separate agreements, payments to event content producers and other direct costs of the meeting or event, including equipment rental, catering and movie tickets acquired primarily from the founding members.

Payment to the founding members of a theatre access fee is comprised of a payment per theatre attendee, a payment per digital screen and a payment per digital cinema projector equipped in the theatres, all of which escalate over time. Refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this document.

Network costs include personnel, satellite bandwidth, repairs, and other costs of maintaining and operating the digital network and preparing advertising and other content for transmission across the digital network. These costs were not specifically allocated between the advertising business and the Fathom Events business (prior to the sale of Fathom Events).

Cash and Cash Equivalents All highly liquid debt instruments and investments purchased with an original maturity of three months or less are classified as cash equivalents and are considered available-for-sale securities. There are cash balances in a bank in excess of the federally insured limits or in the form of a money market demand account with a major financial institution.

Restricted Cash As of January 1, 2015 and December 26, 2013, other non-current assets included restricted cash of \$0.3 million, which secures a letter of credit used as a lease deposit on the Company's New York office.

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Marketable Securities The Company's marketable securities are classified as available-for-sale and are reported at fair value. The fair value of substantially all securities is determined by quoted market information and pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Concentration of Credit Risk and Significant Customers Bad debts are provided for using the allowance for doubtful accounts method based on historical experience and management's evaluation of outstanding receivables at the end of the period. Receivables are written off when management determines amounts are uncollectible. Trade accounts receivable are uncollateralized and represent a large number of geographically dispersed debtors. The collectability risk with respect to national and regional advertising is reduced by transacting with founding members or large, national advertising agencies who have strong reputations in the advertising industry and clients with stable financial positions. The Company has smaller contracts with thousands of local clients that are not individually significant. As of January 1, 2015 and December 26, 2013, there were no advertising agency groups or individual customers through which the Company sources national advertising revenue representing more than 10% of the Company's outstanding gross receivable balance. During the years ended January 1, 2015, December 26, 2013 and December 27, 2012, there were no customers that accounted for more than 10% of revenue.

Receivables consisted of the following (in millions):

	January 1, 2015	As of December 26, 2013
Trade accounts	\$ 119.4	\$ 124.5
Other	1.4	1.6
Less: Allowance for doubtful accounts	(4.3)	(5.7)
Total	\$ 116.5	\$ 120.4

Long-lived Assets Property and equipment is stated at cost, net of accumulated depreciation or amortization. Generally, the equipment associated with the digital network of the founding member theatres is owned by the founding members, while the equipment associated with network affiliate theatres is owned by the Company. Major renewals and improvements are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. The Company records depreciation and amortization using the straight-line method over the following estimated useful lives:

Equipment	4-10 years
Computer hardware and software	3-5 years
Leasehold improvements	Lesser of lease term or asset life

Software and website development costs developed or obtained for internal use are accounted for in accordance with ASC 350 *Internal Use Software* and ASC 350 *Website Development Costs*. The subtopics require the capitalization of certain costs incurred in developing or obtaining software for internal use. The majority of software costs related primarily to the Company's inventory management systems and digital network distribution system (DCS) and website development costs, which are included in equipment, are depreciated over three to five years. As of January 1, 2015 and December 26, 2013, the Company had a net book value of \$9.5 million and \$10.9 million, respectively, of capitalized software and website development costs. Approximately \$6.5 million, \$6.1 million and \$4.1 million was recorded for the years ended January 1, 2015, December 26, 2013

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and December 27, 2012, respectively, in depreciation expense related to software and website development. For the years ended January 1, 2015, December 26, 2013 and December 27, 2012, the Company recorded \$1.7 million, \$1.8 million and \$0.8 million in research and development expense, respectively.

The Company assesses impairment of long-lived assets pursuant with ASC 360 *Property, Plant and Equipment*. This includes determining if certain triggering events have occurred that could affect the value of an asset. The Company has not recorded impairment charges related to long-lived assets.

Intangible assets Intangible assets consist of contractual rights to provide its services within the theatres of the founding members and network affiliates and are stated at cost, net of accumulated amortization. The Company records amortization using the straight-line method over the contractual life of the intangibles, corresponding to the term of the ESAs or the term of the contract with the network affiliate. Intangible assets are tested for impairment at least annually during the fourth quarter or whenever events or changes in circumstances indicate the carrying value may not be fully recoverable. In its impairment testing, the Company estimates the fair value of its ESAs or network affiliate agreements by determining the estimated future cash flows associated with the ESAs or network affiliate agreements. If the estimated fair value is less than the carrying value, the intangible asset is written down to its estimated fair value. Significant judgment is involved in estimating long-term cash flow forecasts. The Company has not recorded impairment charges related to intangible assets.

Other Investments Other investments consisted of the following (in millions):

	January 1, 2015	As of December 26, 2013
Investment in AC JV, LLC (1)	\$ 1.3	\$ 1.1
Other investments (2)	1.2	
Total	\$ 2.5	\$ 1.1

(1) Refer to Note 9 *Related Party Transactions*.

(2) During 2014, the Company received equity securities in some privately held companies as consideration for advertising contracts. The equity securities were accounted for under the cost method and represent an ownership of less than 20%. The Company does not exert significant influence of these companies' operating or financial activities.

The Company reviews investments accounted for under the cost and equity methods for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be fully recoverable. In order to determine whether the carrying value of investments may have experienced an other-than-temporary decline in value necessitating the write-down of the recorded investment, the Company considers various factors including the investee's financial condition and quality of assets, the length of time the investee has been operating, the severity and nature of losses sustained in current and prior years, qualifications in accountant's reports due to liquidity or going concern issues, investee announcements of adverse changes, downgrading of investee debt, regulatory actions, loss of principal customer, negative operating cash flows or working capital deficiencies and the record of an impairment charge by the investee for goodwill, intangible or long-lived assets. Once a determination is made that an other-than-temporary impairment exists, the Company writes down its investment to fair value. During the years ended January 1, 2015, December 26, 2013 and December 27, 2012, the Company recorded other-than-temporary impairment charges of \$0.0 million, \$0.8 million and \$0.0 million. The impairment charge during 2013 wrote the investment to a remaining fair value of \$0.0 million.

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Amounts Due to/from Founding Members Amounts due to/from founding members include amounts due for the theatre access fee, offset by a receivable for advertising time purchased by the founding members on behalf of their beverage concessionaire plus any amounts outstanding under other contractually obligated payments. Payments to or received from the founding members against outstanding balances are made monthly. Available cash distributions are made quarterly.

Income Taxes Income taxes are accounted for under the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to be recovered or settled pursuant to the provisions of ASC 740 *Income Taxes*. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance if it is deemed more likely than not that all or a portion of its deferred income tax assets will not be realized, which will be assessed on an on-going basis. In addition, income tax rules and regulations are subject to interpretation and the application of those rules and regulations require judgment by the Company and may be challenged by the taxation authorities. The Company follows ASC 740-10-25, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Only tax positions that meet the more likely than not recognition threshold are recognized. The Company's unrecognized tax benefits or related interest and penalties are immaterial. Refer to Note 7 *Income Taxes*.

Debt Issuance Costs In relation to the issuance of outstanding debt discussed in Note 10 *Borrowings*, there is a balance of \$15.5 million and \$17.7 million in deferred financing costs as of January 1, 2015 and December 26, 2013, respectively. The debt issuance costs are being amortized on a straight-line basis over the terms of the underlying obligations and are included in interest on borrowings, which approximates the effective interest method.

The changes in debt issuance costs are as follows (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Beginning balance	\$ 17.7	\$ 18.3	\$ 12.6
Debt issuance payments	0.6	3.4	14.0
Amortization of debt issuance costs	(2.8)	(2.8)	(2.4)
Write-off of debt issuance costs		(1.2)	(5.9)
Ending balance	\$ 15.5	\$ 17.7	\$ 18.3

Share-Based Compensation In 2012, the Company issued stock options, restricted stock and restricted stock units. In 2013 and 2014, the Company only issued restricted stock and restricted stock units. Restricted stock and restricted stock units vest upon the achievement of Company performance measures and service conditions or only service conditions. Compensation expense of restricted stock that vests upon the achievement of Company performance measures is based on management's financial projections and the probability of achieving the projections, which require considerable judgment. A cumulative adjustment is recorded to share-based compensation expense in periods that management changes its estimate of the number of shares expected to vest. Ultimately, the Company adjusts the expense recognized to reflect the actual vested shares following the

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NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

resolution of the performance conditions. Dividends are accrued when declared on unvested restricted stock that is expected to vest and are only paid with respect to shares that actually vest.

Compensation cost of stock options was based on the estimated grant date fair value using the Black-Scholes option pricing model, which requires that the Company make estimates of various factors. Under the fair value recognition provisions of ASC 718 *Compensation - Stock Compensation*, the Company recognizes share-based compensation net of an estimated forfeiture rate, and therefore only recognizes compensation cost for those shares expected to vest over the requisite service period of the award. Refer to Note 11 *Share-Based Compensation* for more information.

Fair Value Measurements Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Derivative Instruments NCM LLC is exposed to various financial and market risks including changes in interest rates that exist as part of its ongoing operations. In 2012, NCM LLC utilized certain interest rate swaps to manage these risks. In accordance with ASC 815 *Derivatives and Hedging*, the effective portion of changes in the fair value of a derivative that was designated as a cash flow hedge was recorded in Accumulated Other Comprehensive Income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffectiveness associated with designated cash flow hedges, as well as, any change in the fair value of a derivative that is not designated as a hedge, was recorded immediately in the Consolidated Statements of Income. For more information, refer to Note 15 *Derivative Instruments and Hedging Activities*.

Consolidation NCM, Inc. consolidates the accounts of NCM LLC under the provision of ASC 810, *Consolidation* (ASC 810). Under ASC 810, a managing member of a limited liability company (LLC) is presumed to control the LLC, unless the non-managing members have the right to dissolve the entity or remove the managing member without cause, or if the non-managing members have substantive participating rights. The non-managing members of NCM LLC do not have dissolution rights or removal rights. NCM, Inc. has evaluated the provisions of the NCM LLC membership agreement and has concluded that the various rights of the non-managing members are not substantive participation rights under ASC 810, as they do not limit NCM, Inc.'s ability to make decisions in the ordinary course of business.

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The following table presents the changes in NCM, Inc.'s equity resulting from net income attributable to NCM, Inc. and transfers to or from noncontrolling interests (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Net income attributable to NCM, Inc.	\$ 13.4	\$ 41.2	\$ 13.4
NCM LLC equity issued for purchase of intangible asset	7.5	101.4	4.9
Income tax and other impacts of NCM LLC ownership changes	(1.6)	(33.2)	1.9
NCM, Inc. investment in NCM LLC		(41.3)	
Issuance of shares		41.1	
Change from net income attributable to NCM, Inc. and transfers from noncontrolling interests	\$ 19.3	\$ 109.2	\$ 20.2

Recent Accounting Pronouncements

In March 2014, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 13-D, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period* (EITF 13-D). Under EITF 13-D, a performance target that can be achieved after the requisite service period should be treated as a performance condition that affects vesting, rather than a condition that affects grant date fair value. Compensation cost is recognized over the requisite service period if it is probable that the performance condition will be achieved. If necessary, compensation cost is subsequently adjusted, to reflect those awards that ultimately vest. EITF 13-D will be effective, on a prospective basis, for the Company during its first quarter of 2016, with early adoption permitted. The adoption of this standard is not anticipated to have a material impact on the Company's audited Consolidated Financial Statements or notes thereto.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This guidance will be effective beginning in fiscal year 2017 and early adoption is not permitted. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its audited Consolidated Financial Statements or notes thereto, as well as, which transition method it intends to use.

In August 2014, the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements - Going Concern* (ASU 2014-15). ASU 2014-15 requires that management evaluate at each annual and interim reporting period whether there is a substantial doubt about an entity's ability to continue as a going concern within one year of the date that the financial statements are issued. ASU 2014-15 will be effective for fiscal years and interim periods beginning after December 15, 2016 and early application is permitted. The Company does not expect that the application of ASU 2014-15 will have an impact on the audited Consolidated Financial Statements or notes thereto.

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In November 2014, the FASB issued ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting* (ASU 2014-17). The amendments in ASU 2014-17 provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity may elect to apply pushdown accounting in its separate financial statements upon a change-in-control event in which an acquirer obtains control of the acquired entity. The amendments in ASU 2014-17 were effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of ASU 2014-17 did not have any impact on the audited Consolidated Financial Statements or notes thereto.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its audited Consolidated Financial Statements.

2. DIVESTITURE

On December 26, 2013, NCM LLC sold its Fathom Events business to a newly formed limited liability company (AC JV, LLC) owned 32% by each of the founding members and 4% by NCM LLC. In consideration for the sale, NCM LLC received a total of \$25.0 million in promissory notes from its founding members (one-third or approximately \$8.3 million from each founding member). The notes receivable bear interest at a fixed rate of 5.0% per annum, compounded annually. Interest and principal payments are due annually in six equal installments commencing on the first anniversary of the closing. Due to the related party nature of the transaction, NCM LLC formed a committee of independent directors that hired a separate legal counsel and an investment banking firm who advised the committee and rendered an opinion as to the fairness of the transaction. NCM LLC deconsolidated Fathom Events and recognized a gain on the sale of approximately \$26.0 million during the year ended December 26, 2013. The gain was measured as the difference between (a) the net fair value of the retained noncontrolling investment and the consideration received for the sale and (b) the carrying value of Fathom Events net assets (approximately \$0.1 million). NCM LLC recorded approximately \$0.6 million of expenses related to the sale, which were recorded as a reduction to the gain. Approximately \$1.1 million of the gain recognized related to the re-measurement of the Company's retained 4% interest in AC JV, LLC. The fair value of NCM LLC's retained noncontrolling investment of \$1.1 million was determined by applying NCM LLC's ownership percentage to the fair value of AC JV, LLC, which was valued using comparative market multiples. Under the terms of the agreement, the assets and liabilities related to Fathom events held prior to the sale were not assumed by the buyer and those pertaining to Fathom events held post-closing were transferred to the buyer.

Future minimum principal payments under the notes receivable as of January 1, 2015 are approximately as follows (in millions):

Year	Minimum Principal Payments
2015	\$ 4.2
2016	4.2
2017	4.2
2018	4.1
2019	4.1
Total	\$ 20.8

On December 26, 2013, NCM LLC amended and restated its existing ESAs with each of the founding members to remove those provisions addressing the rights and obligations related to the digital programming

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services of the Fathom Events business. These rights and obligations were conveyed to AC JV, LLC in connection with the sale. In connection with the sale, NCM LLC entered into a transition services agreement to provide certain corporate overhead services for a fee and reimbursement for the use of facilities and certain services including creative, technical event management and event management for the newly formed limited liability company for a period of nine months following the closing. In addition, NCM LLC entered into a services agreement with a term coinciding with the ESAs, which grants the newly formed limited liability company advertising on-screen and on the LEN and a pre-feature program prior to Fathom events reasonably consistent with what was previously dedicated to Fathom. In addition, the services agreement provides that NCM LLC will assist with event sponsorship sales in return for a share of the sponsorship revenue. NCM LLC has also agreed to provide creative and media production services for a fee. For more information, refer to Note 9 *Related Party Transactions*.

Due to the Company's continuing equity method investment in the newly formed limited liability company, the operations of Fathom Events and the gain on the sale were recorded in continuing operations on the Consolidated Statements of Income. Refer to Note 9 *Related Party Transactions* for further discussion of the investment.

3. EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of potentially dilutive common stock options and restricted stock using the treasury stock method. The components of basic and diluted earnings per NCM, Inc. share are as follows:

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Net income attributable to NCM, Inc. (in millions)	\$ 13.4	\$ 41.2	\$ 13.4
Weighted average shares outstanding:			
Basic	58,709,534	56,014,404	54,377,135
Add: Dilutive effect of stock options and restricted stock	295,786	614,053	649,636
Diluted	59,005,320	56,628,457	55,026,771
Earnings per NCM, Inc. share:			
Basic	\$ 0.23	\$ 0.74	\$ 0.25
Diluted	\$ 0.23	\$ 0.73	\$ 0.24

The effect of the 69,306,057, 63,718,411 and 57,393,735, exchangeable NCM LLC common units held by the founding members for the years ended January 1, 2015, December 26, 2013, and December 27, 2012, respectively, have been excluded from the calculation of diluted weighted average shares and earnings per NCM, Inc. share as they were antidilutive. NCM LLC common units do not participate in dividends paid on NCM Inc.'s common shares. In addition, there were 72,533, 30,358 and 76,956 stock options and non-vested (restricted) shares for the years ended January 1, 2015, December 26, 2013, and December 27, 2012, respectively, excluded from the calculation as they were antidilutive, primarily because exercise prices associated with those shares were above the average market value. The Company's non-vested (restricted) shares do not meet the definition of a participating security as the dividends will not be paid if the shares do not vest.

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The following is a summary of property and equipment, at cost less accumulated depreciation (in millions):

	January 1, 2015	As of December 26, 2013
Equipment, computer hardware and software	\$ 89.4	\$ 90.2
Leasehold improvements	3.6	3.6
Less: Accumulated depreciation	(72.9)	(69.5)
Subtotal	20.1	24.3
Construction in progress	2.3	1.3
Total property and equipment	\$ 22.4	\$ 25.6

For the years ended January 1, 2015, December 26, 2013, and December 27, 2012, the Company recorded depreciation expense of \$11.1 million, \$10.4 million, and \$8.7 million, respectively.

5. INTANGIBLE ASSETS

The Company's intangible assets consist of contractual rights to provide its services within the theatres of the founding members and network affiliates. The Company records amortization using the straight-line method over the contractual life of the intangibles, corresponding to the term of the ESAs or the term of the contract with the network affiliate. The Company's intangible assets with NCM LLC's founding members are recorded at the fair market value of NCM, Inc.'s publicly traded stock as of the date on which the common membership units were issued. The NCM LLC common membership units are fully convertible into NCM, Inc.'s common stock. The Company also records intangible assets for upfront fees paid to network affiliates upon commencement of a network affiliate agreement. Pursuant to ASC 350-10 *Intangibles Goodwill and Other*, the Company's intangible assets have a finite useful life and the Company amortizes the assets over the remaining useful life corresponding with the ESAs or the term of the contract with the network affiliate. If common membership units are issued to a founding member for newly acquired theatres that are subject to an existing on-screen advertising agreement with an alternative provider, the amortization of the intangible asset commences after the existing agreement expires and NCM LLC can utilize the theatres for all of its services. In addition, if common membership units are issued to a founding member for theatres under an existing on-screen consulting agreement with an alternative provider, NCM LLC may receive payments from the founding member pursuant to the ESAs on a quarterly basis in arrears in accordance with certain run-out provisions (integration payments). Integration payments approximate the advertising cash flow that the Company would have generated if it had exclusive access to sell advertising in the theatres with pre-existing advertising agreements. The integration payments are recorded as a reduction to net intangible assets, and not as part of operating income.

In accordance with NCM LLC's Common Unit Adjustment Agreement with its founding members, on an annual basis NCM LLC determines the amount of common membership units to be issued to or returned by the founding members based on theatre additions or dispositions during the previous year. In addition, NCM LLC's Common Unit Adjustment Agreement requires that a Common Unit Adjustment occur for a specific founding member if its acquisition or disposition of theatres, in a single transaction or cumulatively since the most recent Common Unit Adjustment, results in an attendance increase or decrease of two percent or more in the total annual attendance of all founding members as of the last adjustment date.

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The following is a summary of the Company's intangible assets (in millions):

	As of December 26, 2013	Additions (1)	Amortization	Integration Payments (3)	As of January 1, 2015
Gross carrying amount	\$ 540.7	\$ 19.4	\$	\$ (2.2)	\$ 557.9
Accumulated amortization	(48.7)		(20.6)		(69.3)
Total intangible assets, net	\$ 492.0	\$ 19.4	\$ (20.6)	\$ (2.2)	\$ 488.6

	As of December 27, 2012	Additions (2)	Amortization	Integration Payments (3)	As of December 26, 2013
Gross carrying amount	\$ 312.8	\$ 230.7	\$	\$ (2.8)	\$ 540.7
Accumulated amortization	(32.5)		(16.2)		(48.7)
Total intangible assets, net	\$ 280.3	\$ 230.7	\$ (16.2)	\$ (2.8)	\$ 492.0

(1) During the first quarter of 2014, NCM LLC issued 1,087,911 common membership units to its founding members for the rights to exclusive access to net new theatre screens and attendees added by the founding members to NCM LLC's network during 2013. NCM LLC recorded a net intangible asset of \$16.4 million in the first quarter of 2014 as a result of the Common Unit Adjustment. During 2014, the Company purchased intangible assets for \$3.0 million associated with network affiliate agreements.

(2) During the first quarter of 2013, NCM LLC issued 4,536,014 common membership units to its founding members for the rights to exclusive access to net new theatre screens and attendees added by the founding members to NCM LLC's network during 2012. NCM LLC recorded a net intangible asset of \$69.0 million in the first quarter of 2013 as a result of the common unit adjustment.

In June 2013, NCM LLC issued 5,315,837 common membership units to Cinemark for attendees added in connection with Cinemark's acquisition of Rave Cinemas and one other newly built theatre. NCM LLC recorded a net intangible asset of approximately \$91.2 million for this Common Unit Adjustment.

In November 2013, NCM LLC issued 3,372,241 common membership units to Regal for attendees added in connection with Regal's acquisition of Hollywood Theatres and three other newly built theatres. NCM LLC recorded a net intangible asset of approximately \$61.6 million for this Common Unit Adjustment.

During 2013, the Company purchased intangible assets for \$8.9 million associated with network affiliate agreements.

(3) Rave had pre-existing advertising agreements for some of the theatres it owned prior to its acquisition by Cinemark, as well as, prior to the acquisition of certain Rave theatres by AMC in December 2012. As a result, AMC and Cinemark will make integration payments over the remaining term of those agreements. During the year ended January 1, 2015 and December 26, 2013, NCM LLC recorded a reduction to net intangible assets of \$2.2 million and \$2.8 million, respectively, related to integration payments due from AMC and Cinemark. During the year ended January 1, 2015 and December 26, 2013, the founding members paid \$2.1 million and \$2.1 million, respectively, in integration payments.

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As of January 1, 2015 and December 26, 2013, the Company's intangible assets related to the founding members, net of accumulated amortization was \$458.3 million and \$463.4 million, respectively with weighted average remaining lives of 22.2 years and 23.0 years as of January 1, 2015 and December 26, 2013, respectively.

As of January 1, 2015 and December 26, 2013, the Company's intangible assets related to the network affiliates, net of accumulated amortization was \$30.3 million and \$28.6 million, respectively with weighted average remaining lives of 14.9 years and 15.8 years as of January 1, 2015 and December 26, 2013, respectively.

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For the years ended January 1, 2015, December 26, 2013 and December 27, 2012 the Company recorded amortization expense of \$20.6 million, \$16.2 million and \$11.7 million, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows (in millions):

Year	Amortization
2015	\$ 21.2
2016	\$ 21.3
2017	\$ 21.3
2018	\$ 21.7
2019	\$ 23.4

6. ACCRUED EXPENSES

The following is a summary of the Company's accrued expenses (in millions):

	As of January 1, 2015	As of December 26, 2013
Make-good reserve	\$ 2.0	\$ 1.8
Accrued interest	12.6	12.7
Deferred rent	2.4	2.6
Other accrued expenses	2.2	2.6
Total accrued expenses	\$ 19.2	\$ 19.7

7. INCOME TAXES

On the IPO date, NCM, Inc. and the founding members entered into a tax receivable agreement. Under the terms of this agreement, NCM, Inc. will make cash payments to the founding members in amounts equal to 90% of NCM, Inc.'s actual tax benefit realized from the tax amortization of the intangible assets described below. For purposes of the tax receivable agreement, cash savings in income and franchise tax will be computed by comparing NCM, Inc.'s actual income and franchise tax liability to the amount of such taxes that NCM, Inc. would have been required to pay had there been no increase in NCM, Inc.'s proportionate share of tax basis in NCM LLC's tangible and intangible assets and had the tax receivable agreement not been entered into. The tax receivable agreement applies to NCM, Inc.'s taxable years up to and including the 30th anniversary date of the offering. The Company paid the founding members \$18.2 million in 2012 (\$0.9 million was for the 2010 tax year and \$17.3 million for the 2011 tax year), \$10.1 million in 2013 (\$0.9 million was for the 2011 tax year and \$9.2 million for the 2012 tax year) and \$27.1 million in 2014 (\$0.1 million was for the 2012 tax year, \$6.7 million was net operating loss carrybacks for the 2009, 2010 and 2011 tax years and \$20.3 million for the 2013 tax year).

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The Company has provided total income taxes, as follows (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Current:			
Federal	\$ (3.3)	\$ 3.6	\$ (6.6)
State	0.4	1.9	(0.2)
Total current income tax expense/(benefit)	\$ (2.9)	\$ 5.5	\$ (6.8)
Deferred:			
Federal	\$ 10.3	\$ 16.7	\$ 28.8
State	2.5	1.2	4.8
Total deferred income tax expense	\$ 12.8	\$ 17.9	\$ 33.6
Valuation allowance		(3.3)	(0.1)
Total income tax provision on Consolidated Statements of Income	\$ 9.9	\$ 20.2	\$ 26.7
Income tax expense/(benefit) on other comprehensive income	\$ 1.8	\$ 1.8	\$ (6.7)

A reconciliation of the provision for income taxes as reported and the amount computed by multiplying income before taxes, less noncontrolling interest, by the U.S. federal statutory rate of 35% was (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Provision calculated at federal statutory income tax rate:			
Income before income taxes	\$ 26.2	\$ 52.1	\$ 32.2
Less: Noncontrolling interests	(18.3)	(30.9)	(18.2)
Income attributable to NCM, Inc.	7.9	21.2	14.0
Out of period correction to enacted state rate (1)			9.6
Current year change to enacted state rate	0.8	(1.2)	1.4
State and local income taxes, net of federal benefit	0.9	2.2	1.1
NCM LLC income taxes	0.9	0.8	0.6
Share-based compensation	0.9		
Allocation to founding members under tax receivable agreement	(1.8)	(0.7)	(1.2)
Change in valuation allowance		(3.3)	(0.1)
Other	0.3	1.2	1.3
Total income tax provision	\$ 9.9	\$ 20.2	\$ 26.7

- (1) During 2012, NCM, Inc. corrected errors in the blended state tax rate used to measure the net deferred tax asset. Excess of tax basis over book basis investment in consolidated subsidiary NCM LLC. The impact of these adjustments was a total out of period income statement impact of \$5.3 million which consisted of an adjustment to deferred tax expense of \$9.6 million offset by a reduction of TRA interest expense of \$4.3 million.

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Significant components of the Company's deferred tax assets and deferred tax liability consisted of the following (in millions):

	Years Ended	
	January 1, 2015	December 26, 2013
Deferred tax assets:		
Investment in consolidated subsidiary NCM LLC (1)(2)	\$ 218.7	\$ 233.4
Share-based compensation	6.6	6.6
Derivative instruments	0.3	2.1
Net operating losses	4.1	0.6
Other	4.5	5.7
Total deferred tax assets	234.2	248.4
Valuation allowance		
Total deferred tax assets, net of valuation allowance	\$ 234.2	\$ 248.4
Deferred tax liabilities:		
Discount on liability for income taxes payable to founding members under tax sharing agreement (3)	\$ 48.9	\$ 53.3
Depreciation and amortization	2.8	3.4
Derivative instruments	0.3	2.2
Notes receivable	2.5	2.7
Other	0.7	0.3
Total deferred tax liabilities	\$ 55.2	\$ 61.9

- (1) NCM LLC made an election under Internal Revenue code (IRC) §754 of the Internal Revenue Code to step-up the Company's outside basis in its share of NCM LLC's inside basis of assets under IRC §743(b) resulting in a deferred tax asset for the Company's acquired share of NCM LLC's assets. The majority of this deferred tax asset is attributable to intangible assets that are amortized over the remainder of the 15-year period for federal income tax purposes and accounted for as distributions under U.S. generally accepted accounting principles. The Company recorded additional step-up in tax basis as a result of subsequent payments made by NCM, Inc. to the founding members under the tax receivable agreement resulting from amortization of the IRC §743(b) adjustment.
- (2) For federal income tax purposes, an amortizable intangible asset was created on the tax-basis balance sheet of NCM LLC as a result of the founding members agreeing to modify NCM LLC's payment obligations under the ESAs and as a result of the common unit adjustments, which are further described in Note 5 *Intangible Assets*. The tax effect of NCM, Inc.'s share of the intangible asset is amortized over the remainder of the 30-year life for federal income tax purposes. Additionally, units issued under Common Unit Adjustments and subsequent payments to the founding members under the tax receivable agreement, create additional layers of tax basis amortized over the remaining period of the ESA. The ESA deferred tax asset was adjusted to reflect the changes in ownership that occurred during the year due to the common unit adjustments.
- (3) NCM, Inc. recorded a long-term payable to founding members related to the tax receivable agreement, which is recorded at its present value. The discount on this liability is a temporary difference that resulted in a deferred tax liability. The Company recorded accretion of interest on the discounted payable of \$14.6 million and \$13.9 million for the year ended January 1, 2015 and December 26, 2013, respectively.

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As of January 1, 2015, the Company had gross federal net operating loss carryforwards of approximately \$8.4 million, which expire in 2034. As of January 1, 2015, the Company had gross state net operating loss carryforwards of approximately \$28.6 million, which expire at various dates between 2017 and 2034. The Company reversed a valuation allowance it had against its capital loss carryforwards as of December 26, 2013, as some of the carryforwards were utilized in 2013 and the remainder were utilized in 2014.

The Company is subject to taxation in the U.S. and various states. NCM LLC's fiscal year 2007 and 2008 tax returns were under examination by the Internal Revenue Service (IRS). On September 10, 2013, NCM LLC and NCM, Inc., in its capacity as tax matters partner for NCM LLC, received a No Adjustments Letter from the IRS which stated that the IRS completed its review of the NCM LLC tax returns for the fiscal years ended 2007 and 2008 and did not propose any adjustments to those tax returns. NCM, Inc. had previously contested adjustments proposed by the IRS through the administrative appeals process. The Company had not recorded any adjustment to its financial statements for this matter and as such there was no effect on the Company's financial statements for the year ended December 26, 2013 related to the closure of these audits.

As of January 1, 2015 and December 26, 2013, there was no material liability or expense for the periods then ended recorded for payment of interest and penalties associated with uncertain tax positions or material unrecognized tax positions and the Company's unrecognized tax benefits were not material.

8. EQUITY

As of January 1, 2015, the Company has authorized capital stock of 175,000,000 shares of common stock, par value of \$0.01 per share, and 10,000,000 shares of preferred stock, par value of \$0.01 per share. There were no shares of preferred stock issued or outstanding as of January 1, 2015. There were 58,750,926 shares of common stock issued and outstanding as of January 1, 2015.

The holders of NCM Inc. common stock are entitled to one vote per share on all matters submitted for action by the NCM Inc. stockholders. Holders of common stock are entitled to share equally, share for share, in declared dividends.

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be used for a variety of corporate purposes, including share based compensation, future public offerings to raise additional capital, corporate acquisitions and exchange on a one-for-one basis under the founding members' right to convert their NCM LLC membership units into Company common stock.

NCM LLC's founding members received all proceeds from NCM, Inc.'s IPO and related issuances of debt, except for amounts needed to pay out-of-pocket costs of the financings and other expenses. The ESAs with the founding members were amended and restated in conjunction with the IPO under which NCM LLC became the exclusive provider of advertising services to the founding members for a 30-year term. In conformity with accounting guidance of the SEC concerning monetary consideration paid to promoters, such as the founding members, in exchange for property conveyed by the promoters, the excess over predecessor cost was treated as a special distribution. Because the founding members had no cost basis in the ESAs, nearly all payments to the founding members with the proceeds of the IPO and related debt, have been accounted for as distributions. The distributions by NCM LLC to the founding members made at the date of the IPO resulted in a consolidated stockholders' deficit. As a noncontrolling interest cannot be shown as an asset, the founding members' interest in NCM LLC's members equity is included in distributions in excess of paid in capital in the accompanying Consolidated Balance Sheets.

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Founding Member Transactions In connection with the IPO, the Company entered into several agreements to define and regulate the relationships among NCM, Inc., NCM LLC and the founding members. They include the following:

ESAs. Under the ESAs, NCM LLC is the exclusive provider within the United States of advertising services in the founding members' theatres (subject to pre-existing contractual obligations and other limited exceptions for the benefit of the founding members). The advertising services include the on-screen advertising of the *FirstLook* pre-show, use of the LEN and lobby promotions. Further, some advertising in the *FirstLook* pre-show is sold to NCM LLC's founding members to be used to satisfy the founding members' on-screen advertising commitments under their beverage concessionaire agreements. In consideration for access to the founding members' theatre attendees for on-screen advertising and use of the founding members' theatres for the LEN and lobby promotions, the founding members receive a monthly theatre access fee.

Common Unit Adjustment Agreement. The common unit adjustment agreement provides a mechanism for adjusting membership units held by the founding members based on increases or decreases in the number of screens operated by each founding member.

Tax Receivable Agreement. The tax receivable agreement provides for the effective payment by NCM, Inc. to the founding members of 90% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that is actually realized as a result of certain increases in NCM, Inc.'s proportionate share of tax basis in NCM LLC's tangible and intangible assets resulting from the IPO and related transactions. Refer to Note 7 *Income Taxes* for further details.

Following is a summary of the transactions between the Company and the founding members (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Included in the Consolidated Statements of Income:			
Revenue:			
Beverage concessionaire revenue (included in advertising revenue) (1)	\$ 38.4	\$ 41.4	\$ 39.7
Advertising inventory revenue (included in advertising revenue) (2)	0.3	0.2	0.2
Operating expenses:			
Theatre access fee (3)	70.6	69.4	64.5
Revenue share from Fathom Events (included in Fathom Events operating costs) (4)		5.1	5.5
Purchase of movie tickets and concession products and rental of theatre space (included in Fathom Events operating costs) (5)		0.2	0.4
Purchase of movie tickets and concession products and rental of theatre space (included in selling and marketing costs) (6)	0.9	1.4	1.1
Purchase of movie tickets and concession products (included in advertising operating costs) (6)		0.2	
Purchase of movie tickets and concession products and rental of theatre space (included in other administrative and other costs)	0.1		

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	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Non-operating expenses:			
Gain on sale of Fathom Events (7)		25.4	
Interest income from notes receivable (included in interest income) (7)	1.2		

- (1) For the years ended January 1, 2015, December 26, 2013 and December 27, 2012, the founding members purchased 60 seconds of on-screen advertising time (with a right to purchase up to 90 seconds) from NCM LLC to satisfy their obligations under their beverage concessionaire agreements at a specified 30 second equivalent CPM.
- (2) The value of such purchases is calculated by reference to NCM LLC's advertising rate card.
- (3) Comprised of payments per theatre attendee, payments per digital screen with respect to the founding member theatres included in the Company's network and payments for access to higher quality digital cinema equipment.
- (4) Prior to the sale of Fathom Events on December 26, 2013, these payments are at rates (percentage of event revenue) included in the ESAs based on the nature of the event.
- (5) Prior to the sale of Fathom Events on December 26, 2013, these were used primarily for marketing resale to Fathom Events customers.
- (6) Used primarily for marketing to NCM LLC's advertising clients.
- (7) Refer to discussion of Fathom sale in Note 2 *Divestiture*.

	January 1, 2015	As of December 26, 2013
Included in the Consolidated Balance Sheets:		
Current portion of note receivable - founding members (1)	\$ 4.2	\$ 4.2
Long-term portion of note receivable - founding members (1)	16.6	20.8
Investment in AC JV, LLC (2)	1.3	1.1
Common unit adjustments and integration payments, net of amortization (included in intangible assets)	458.3	463.4
Current payable to founding members under tax receivable agreement	19.6	28.6
Long-term payable to founding members under tax receivable agreement	146.7	144.0

- (1) Refer to discussion of Fathom sale in Note 2 *Divestiture*.
- (2) The Company accounts for its investment in AC JV, LLC under the equity method of accounting in accordance with ASC 323-30, *Investments - Equity Method and Joint Ventures* (ASC 323-30) because AC JV, LLC is a limited liability company with the characteristics of a limited partnership and ASC 323-30 requires the use of equity method accounting unless the Company's interest is so minor that it would have virtually no influence over partnership operating and financial policies. The Company concluded that its interest was more than minor under the accounting guidance despite the fact that NCM LLC does not have a representative on AC JV, LLC's Board of Directors or any voting, consent or blocking rights with respect to the governance or operations of AC JV, LLC.

At the date of the Company's IPO, the NCM LLC was granted a perpetual, royalty-free license from NCM LLC's founding members to use certain proprietary software that existed at the time for the delivery of digital advertising and other content through the DCN to screens in the U.S. NCM LLC has made improvements to this software since the IPO date and NCM LLC owns those improvements, except for improvements that were developed jointly by NCM LLC and NCM LLC's founding members, if any.

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Pursuant to the terms of the NCM LLC Operating Agreement in place since the completion of the IPO, NCM LLC is required to make mandatory distributions on a proportionate basis to its members of available cash, as defined in the NCM LLC Operating Agreement, on a quarterly basis in arrears. Mandatory distributions for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 are as follows (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
AMC	\$ 21.9	\$ 29.8	\$ 23.1
Cinemark	28.0	36.9	24.2
Regal	29.5	37.1	29.5
Total founding members	79.4	103.8	76.8
NCM, Inc.	67.0	89.6	72.8
Total	\$ 146.4	\$ 193.4	\$ 149.6

The mandatory distributions of available cash by NCM LLC to its founding members for the quarter ended January 1, 2015 of \$32.9 million, is included in amounts due to founding members in the Consolidated Balance Sheets as of January 1, 2015 and will be made in the first quarter of 2015.

Amounts due to founding members as of January 1, 2015 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	\$ 0.8	0.8	1.2	\$ 2.8
Cost and other reimbursement	(0.6)	(0.2)		(0.8)
Distributions payable to founding members	9.1	11.6	12.2	32.9
Total	\$ 9.3	\$ 12.2	\$ 13.4	\$ 34.9

Amounts due to founding members as of December 26, 2013 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	\$ 0.6	0.7	1.1	\$ 2.4
Cost and other reimbursement	(2.0)	(0.7)	(0.6)	(3.3)
Distributions payable to founding members	8.7	10.9	11.4	31.0
Total	\$ 7.3	\$ 10.9	\$ 11.9	\$ 30.1

Common Unit Membership Redemption The NCM LLC Operating Agreement provides a redemption right of the founding members to exchange common membership units of NCM LLC for shares of the Company's common stock on a one-for-one basis, or at the Company's option, a cash payment equal to the market price of one share of NCM, Inc. common stock. During the third quarter of 2013, Regal exercised the

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redemption right of an aggregate 2,300,000 common membership units for a like number of shares of common stock. Such redemptions took place immediately prior to the closing of an underwritten public offering and the closing of an overallotment option. The Company did not receive any proceeds from the sale of its common stock by Regal. Pursuant to ASC 810-10-45, the Company accounted for the change in its ownership interest in NCM LLC as an equity transaction and no gain or loss was recognized in the Consolidated Statements of Income. During 2013, the Company recorded a \$4.1 million deferred tax asset for its additional ownership interest in NCM LLC to reflect the tax effected difference between the tax basis and the book basis, the majority of which

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will be amortized over a 15-year period for federal income tax purposes. In addition, the Company recorded an increase of \$4.5 million in its long-term payable to founding members for the estimated payment to the founding members of 90% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company expects to realize as a result of the deferred tax asset, which is recorded at its present value. The discount on this liability is a temporary difference that resulted in an additional \$2.1 million deferred tax liability.

AC JV, LLC Transactions Following is a summary of the transactions between NCM LLC and AC JV, LLC (in millions):

	Years Ended	
	January 1, 2015	December 26, 2013
Included in the Consolidated Statements of Income:		
Transition services (included in network costs) (1)	\$ 0.2	\$
Equity in earnings of non-consolidated entities (included in other non-operating expense)	0.2	

(1) In connection with the sale of Fathom Events, NCM LLC entered into a transition services agreement to provide certain corporate overhead services for a fee and reimbursement for the use of facilities and certain services including creative, technical event management and event management for the newly formed limited liability company for a period of nine months following the closing. These fees received by NCM LLC are included as an offset to network costs in the audited Consolidated Statements of Income.

Related Party Affiliates NCM LLC enters into network affiliate agreements with network affiliates for NCM LLC to provide in-theatre advertising at theatre locations that are owned by companies that are affiliates of certain of the founding members or directors of NCM, Inc. Related party affiliate agreements are entered into at terms that are similar to those of the Company's other network affiliates.

The following is a summary of advertising operating costs in the Consolidated Statements of Income between the Company and its related party affiliates (in millions):

Related Party Affiliate	Years Ended		
	January 1, 2015	December 26, 2013	December 27, 2012
Starplex (1)	\$ 3.5	\$ 2.9	\$ 3.2
Other	0.2	0.5	1.0
Total	\$ 3.7	\$ 3.4	\$ 4.2

The following is a summary of the accounts payable balance between the Company and its related party affiliates included in the Consolidated Balance Sheets (in millions):

Related Party Affiliate	As of	
	January 1, 2015	December 26, 2013
Starplex (1)	\$ 0.9	\$ 0.7
Other	0.1	0.1

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Total	\$ 1.0	\$ 0.8
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(1) Starplex Operating L.P. (Starplex) is an affiliate of one of NCM, Inc. s former directors, who served on the board of directors during 2014.

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Other Transactions NCM LLC has an agreement with an interactive media company to sell some of its online inventory. One of NCM, Inc.'s directors is also a director of this media company. During the years ended January 1, 2015 and December 26, 2013, this company generated approximately \$0.3 million and \$0.6 million, respectively, in revenue for NCM LLC and there was approximately \$0.3 million and \$0.6 million, respectively, of accounts receivable due from this company as of January 1, 2015 and December 26, 2013.

NCM LLC has an agreement with AEG Live, an affiliate of The Anschutz Corporation, for AEG Live to showcase musical artists in the *FirstLook* pre-show. The Anschutz Corporation is a wholly-owned subsidiary of the Anschutz Company, which is the controlling stockholder of Regal. During the year ended January 1, 2015, NCM LLC received approximately \$0.7 million in revenue from AEG Live and as of January 1, 2015, had \$0.4 million of accounts receivable from AEG Live.

NCM LLC provides on-screen advertising free of charge to a charity associated with the Anschutz Corporation. There were no amounts recorded in the audited Consolidated Financial Statements during the years ended January 1, 2015 or December 26, 2013 for these services.

10. BORROWINGS

The following table summarizes NCM LLC's total outstanding debt as of January 1, 2015 and December 26, 2013 and the significant terms of its borrowing arrangements:

Borrowings (\$ in millions)	Outstanding Balance as of		Maturity Date	Interest Rate
	January 1, 2015	December 26, 2013		
Revolving Credit Facility	\$ 22.0	\$ 20.0	November 26, 2019	(1)
Term Loans	270.0	270.0	November 26, 2019	(1)
Senior Unsecured Notes	200.0	200.0	July 15, 2021	7.875%
Senior Secured Notes	400.0	400.0	April 15, 2022	6.000%
Total	\$ 892.0	\$ 890.0		
Less: current portion of long-term debt		(14.0)		
Long-term debt, less current portion	\$ 892.0	\$ 876.0		

(1) The interest rates on the revolving credit facility and term loan are described below.

Senior Secured Credit Facility As of January 1, 2015, NCM LLC's senior secured credit facility consisted of a \$135.0 million revolving credit facility and a \$270.0 million term loan. On June 18, 2014, NCM LLC entered into an incremental amendment of its senior secured credit facility whereby the revolving credit facility was increased by \$25.0 million. In addition, on July 2, 2014, NCM LLC entered into an amendment of its senior secured credit facility whereby the maturity date was extended by two years to November 26, 2019, which corresponds to the maturity date of the \$270 million term loans. The amendment also contains Conditional Amendments to the senior secured credit facility that will only be effective upon the contribution of Screenvision assets and NCM, Inc. debt to NCM LLC. Although it is under no obligation to do so, upon approval of NCM, Inc.'s Board of Directors and NCM LLC's founding members, NCM, Inc. may contribute the Screenvision assets and the new NCM, Inc. debt facility to NCM LLC in exchange for NCM LLC common membership units. To allow for this potential contribution to NCM LLC, the Conditional Amendments include an increase in the amount of incremental senior secured indebtedness permitted by the Amended Credit Facility from \$160 million to \$250 million. If the Screenvision contribution to NCM LLC does not occur by April 1, 2015, the Conditional Amendments will not become effective and lender consent for the Conditional Amendments will be immediately

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and automatically revoked, unless extended. Refer to discussion of the NCM, Inc. Commitment letter below for further details. The obligations under the senior secured credit facility are secured by a lien on substantially all of the assets of NCM LLC.

Revolving Credit Facility The revolving credit facility portion of NCM LLC's total borrowings is available, subject to certain conditions, for general corporate purposes of NCM LLC in the ordinary course of business and for other transactions permitted under the senior secured credit facility, and a portion is available for letters of credit.

As of January 1, 2015, NCM LLC's total availability under the \$135.0 million revolving credit facility was \$113.0 million. The unused line fee is 0.50% per annum. Borrowings under the revolving credit facility bear interest at NCM LLC's option of either the LIBOR index plus an applicable margin or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the senior secured credit facility) plus an applicable margin. The applicable margin for the revolving credit facility is determined quarterly and is subject to adjustment based upon a consolidated net senior secured leverage ratio for NCM LLC (the ratio of secured funded debt less unrestricted cash and cash equivalents, over a non-GAAP measure defined in the senior secured credit facility). The applicable margins on the revolving credit facility are the LIBOR index plus 2.00% or the base rate plus 1.00%. The weighted-average interest rate on the outstanding balance on the revolving credit facility as of January 1, 2015 was 2.17%. On December 31, 2014, \$14.0 million of the revolving credit facility matured and NCM LLC paid the balance in full, along with any accrued and unpaid fees and interest. The maturity date applicable to the remaining revolving credit facility principal is November 26, 2019.

Term Loans In connection with the amendment of its senior secured credit facility on May 2, 2013, the interest rate on the term loans decreased by 50 basis points to a rate at NCM LLC's option of either the LIBOR index plus 2.75% or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the senior secured credit facility) plus 1.75%. The weighted-average interest rate on the term loans as of January 1, 2015 was 2.92%. Interest on the term loans is currently paid monthly.

The senior secured credit facility contains a number of covenants and financial ratio requirements, with which NCM LLC was in compliance at January 1, 2015, including maintaining a consolidated net senior secured leverage ratio of 6.5 times on a quarterly basis. NCM LLC is permitted to make quarterly dividend payments and other payments based on leverage ratios for NCM LLC and its subsidiaries so long as no default or event of default has occurred and continues to occur. The quarterly dividend payments and other distributions are made even if consolidated net senior secured leverage ratio is less than or equal to 6.5 times. In addition, there are no borrower distribution restrictions as long as NCM LLC's consolidated net senior secured leverage ratio is below 6.5 times and NCM LLC is in compliance with its debt covenants. If there are limitations on the restricted payments, NCM LLC may not declare or pay any dividends, or make any payments on account of NCM LLC, or set aside assets for the retirement or other acquisition of capital stock of the borrower or any subsidiaries, or make any other distribution for obligations of NCM LLC. When these restrictions are effective, NCM LLC may still pay the services fee and reimbursable costs pursuant to terms of the management agreement. NCM LLC can also make payments pursuant to the tax receivable agreement in the amount, and at the time necessary to satisfy the contractual obligations with respect to the actual cash tax benefits payable to NCM LLC's founding members. As of January 1, 2015, the NCM LLC's consolidated net senior secured leverage ratio was 3.4 times (versus the covenant of 6.5 times).

Senior Unsecured Notes due 2021 On July 5, 2011, NCM LLC completed a private placement of \$200.0 million in aggregate principal amount of 7.875% Senior Unsecured Notes for which the registered exchange offering was completed on September 22, 2011. The Senior Unsecured Notes pay interest semi-annually in arrears on January 15 and July 15 of each year, which commenced January 15, 2012. The notes are subordinated

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to all existing and future secured debt, including indebtedness under the Company's existing senior secured credit facility and the Senior Secured Notes defined below. The Senior Unsecured Notes contain certain non-maintenance covenants with which NCM LLC was in compliance as of January 1, 2015.

Senior Secured Notes due 2022 On April 27, 2012, NCM LLC completed a private placement of \$400.0 million in aggregate principal amount of 6.00% Senior Secured Notes for which the registered exchange offering was completed on November 26, 2012. The Senior Secured Notes pay interest semi-annually in arrears on April 15 and October 15 of each year, which commenced October 15, 2012. The Senior Secured Notes are senior secured obligations of NCM LLC, rank the same as NCM LLC's senior secured credit facility, subject to certain exceptions, and share in the same collateral that secures NCM LLC's obligations under the senior secured credit facility. The Senior Secured Notes contain certain non-maintenance covenants with which NCM LLC was in compliance as of January 1, 2015.

NCM, Inc. Commitment Letter On July 2, 2014, in contemplation of the Merger with Screenvision, NCM, Inc. entered into the Commitment Letter with certain existing NCM LLC revolving credit facility lenders. Under the Commitment Letter, subject to certain conditions, the lenders committed to make a term loan in an aggregate principal amount of \$250 million to fund the Screenvision merger and related expenses. This term loan is expected to finance the \$225 million portion of the merger consideration that will be paid in cash, along with fees and expenses incurred in connection with the term loan and the Merger. The term loan will mature on the second anniversary of the funding of the term loan. NCM, Inc. has the right to contribute the Screenvision assets and the \$250 million loan to NCM LLC, at which point, the Conditional Amendments to the amended senior secured credit facility described above would become effective. On November 3, 2014, the DOJ filed the DOJ Action. A trial date has been scheduled for April 13, 2015. The Commitment Letter and NCM LLC senior secured credit facility amendments expire on April 1, 2015. The Company is working with the merger financing bank group to extend the merger financing commitments to accommodate the litigation process.

Future Maturities of Borrowings The scheduled annual maturities on the Senior Secured Credit Facility and Senior Secured and Senior Unsecured Notes as of January 1, 2015 are as follows (in millions):

Year	Amount
2015	\$
2016	
2017	
2018	
2019	292.0
Thereafter	600.0
Total	\$ 892.0

11. SHARE-BASED COMPENSATION

The NCM, Inc. 2007 Equity Incentive Plan, as amended (the "Equity Incentive Plan"), reserves 12,974,589 shares of common stock available for issuance or delivery under the Equity Incentive Plan of which 4,126,037 remain available for future grants as of January 1, 2015. The types of awards that may be granted under the Equity Incentive Plan include stock options, stock appreciation rights, restricted stock, restricted stock units or other stock based awards. Stock options awarded under the Equity Incentive Plan are granted with an exercise price equal to the closing market price of NCM, Inc. common stock on the date the Company's board of directors

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approves the grant. Upon vesting of the restricted stock awards or exercise of options, NCM LLC will issue common membership units to the Company equal to the number of shares of the Company's common stock represented by such awards. Options and restricted stock vest annually over a three or five-year period and options have either 10-year or 15-year contractual terms. A forfeiture rate of 5% was estimated to reflect the potential separation of employees. Certain option and share awards provide for accelerated vesting if there is a change in control, as defined in the Equity Incentive Plan. In addition, certain restricted stock awards include performance vesting conditions, which permit vesting to the extent that the Company achieves specified non-GAAP targets at the end of the measurement period. The length of the measurement period is two to three years. Restricted stock units granted to non-employee directors vest after approximately one year.

Compensation Cost The Company recognized \$7.7 million, \$5.9 million and \$9.0 million for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively, of share-based compensation expense and \$0.1 million, \$0.1 million and \$0.2 million was capitalized during the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively. No compensation expense was recorded for the 2012 non-vested restricted stock grants subject to performance conditions as the grants were not expected to vest due to the projected underperformance against the specified non-GAAP targets as of January 1, 2015. The income tax benefit recognized in the income statement for share-based compensation was approximately \$1.4 million, \$1.0 million, and \$2.6 million for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively. As of January 1, 2015, unrecognized compensation cost related to unvested options was approximately \$0.1 million, which will be recognized over a weighted average remaining period of 0.5 years. As of January 1, 2015, unrecognized compensation cost related to restricted stock and restricted stock units was approximately \$12.5 million, which will be recognized over a weighted average remaining period of 1.9 years.

Stock Options A summary of option award activity under the Equity Incentive Plan as of January 1, 2015, and changes during the year then ended are presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 26, 2013	3,056,582	\$ 17.02		
Granted				
Exercised	(57,499)	13.91		
Forfeited	(92,831)	16.50		
Expired				
Antidilution adjustments made to outstanding options in connection with a special dividend (1)	98,589	16.49		
Outstanding as of January 1, 2015	3,004,841	\$ 16.53	5.7	\$ 1.1
Exercisable as of January 1, 2015	2,839,945	\$ 16.74	5.7	\$ 0.8
Vested and expected to vest as of January 1, 2015	3,004,548	\$ 16.53	5.7	\$ 1.1

- (1) In connection with the Company's March 2014 special cash dividend of \$0.50 per share and pursuant to the antidilution adjustment terms of the Company's Equity Incentive Plan, the exercise price and the number of shares of common stock subject to options held by the Company's employees were adjusted to prevent dilution and restore their economic value that existed immediately before the special dividend. The antidilution adjustments made with respect to such options resulted in a decrease in the range of exercise prices from \$5.35 - \$24.68 per share to \$5.18 - \$23.90 per share and an increase in the aggregate number of

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shares issuable upon exercise of such options by 98,589 shares, or 3.3%, of previously outstanding options. The number of shares authorized under the Equity Incentive Plan increased by an equivalent number of shares. There were no accounting consequences for the changes made to reduce the exercise prices and increase the number of underlying options as a result of the special cash dividend because the aggregate fair values of the awards immediately before and after the modifications were the same.

The weighted average grant date fair value of granted options was \$4.08 per share for the year ended December 27, 2012. The intrinsic value of options exercised during the year was \$0.2 million, \$6.1 million and \$1.4 million for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively. The total fair value of awards vested during the years ended January 1, 2015, December 26, 2013 and December 27, 2012 was \$2.2 million, \$4.9 million and \$7.8 million, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing valuation model that uses the assumptions noted in the table below. Expected volatilities are based on implied volatilities from traded options on the Company's stock, historical volatility of the Company's stock, and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used in the valuation of the options for the years ended January 1, 2015, December 26, 2013 and December 27, 2012:

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
Expected term (in years)	(1)	(1)	6.0
Risk free interest rate	(1)	(1)	0.8%-1.1%
Expected volatility	(1)	(1)	53.2%-54.6%
Dividend yield	(1)	(1)	5.5%

(1) The Company did not grant stock options during the years ended January 1, 2015 and December 26, 2013.

Restricted Stock and Restricted Stock Units Under the non-vested stock program, common stock of the Company may be granted at no cost to officers, independent directors and employees, subject to requisite service and/or meeting financial performance targets, and as such restrictions lapse, the award vests in that proportion. The participants are entitled to cash dividends and to vote their respective shares (in the case of restricted stock), although the sale and transfer of such shares is prohibited and the shares are subject to forfeiture during the restricted period. Additionally, the accrued cash dividends for 2012, 2013 and 2014 grants are subject to forfeiture during the restricted period should the underlying shares not vest.

The weighted average grant date fair value of non-vested stock was \$19.18, \$15.17 and \$13.23 for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively. The total fair value of awards vested was \$3.6 million, \$7.5 million and \$6.9 million during the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively.

As of January 1, 2015, the total number of restricted stock and restricted stock units that are ultimately expected to vest, after consideration of expected forfeitures and estimated vesting of performance-based restricted stock is 1,166,813.

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A summary of restricted stock award and restricted stock unit activity under the Equity Incentive Plan as of January 1, 2015, and changes during the year then ended are presented below:

	Number of Restricted Shares and Restricted Stock Units	Weighted Average Grant-Date Fair Value
Non-vested balance as of December 26, 2013	2,074,866	\$ 14.91
Granted	919,050	19.18
Vested	(257,390)	13.97
Forfeited	(580,530)	16.54
Non-vested balance as of January 1, 2015	2,155,996	\$ 16.40

12. EMPLOYEE BENEFIT PLANS

The Company sponsors the NCM 401(k) Profit Sharing Plan (the Plan) under Section 401(k) of the Internal Revenue Code of 1986, as amended, for the benefit of substantially all full-time employees. The Plan provides that participants may contribute up to 20% of their compensation, subject to Internal Revenue Service limitations. Employee contributions are invested in various investment funds based upon election made by the employee. The Company made discretionary contributions of \$1.0 million, \$1.0 million and \$1.0 million during the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively.

13. COMMITMENTS AND CONTINGENCIES

Legal Actions The Company is subject to claims and legal actions in the ordinary course of business. The Company believes such claims will not have a material effect on its financial position, results of operations or cash flows.

On November 3, 2014, the DOJ filed, in the U.S. district court for the Southern District of New York, the DOJ Action seeking to enjoin the proposed merger between NCM, Inc. and Screenvision. The DOJ claims that the proposed merger would eliminate competition in the market for pre-show services and eliminate competition between NCM, Inc. and Screenvision for advertisers. On November 3, 2014, the DOJ filed the DOJ Action. A trial date has been scheduled for April 13, 2015. A merger termination payment is discussed below.

Operating Commitments The Company leases office facilities for its headquarters in Centennial, Colorado and also in various cities for its sales and marketing and software development personnel. Total lease expense for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, was \$2.2 million, \$2.3 million and \$2.3 million, respectively. Future minimum lease payments under noncancelable operating leases as of January 1, 2015 are as follows (in millions):

Year	Minimum Lease Payments
2015	\$ 2.5
2016	2.6
2017	2.0
2018	1.7
2019	1.7

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Thereafter	2.5
Total	\$ 13.0

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Minimum Revenue Guarantees As part of the network affiliate agreements entered into in the ordinary course of business under which the Company sells advertising for display in various network affiliate theatre chains, the Company has agreed to certain minimum revenue guarantees on a per attendee basis. If a network affiliate achieves the attendance set forth in their respective agreement, the Company has guaranteed minimum revenue for the network affiliate per attendee if such amount paid under the revenue share arrangement is less than its guaranteed amount. The amount and term varies for each network affiliate, but terms range from three to 20 years, prior to any renewal periods of which some are at the option of the Company. During October 2014, the Company offered to all of its network affiliates an extension of their existing agreements by five years, with the per-attendee guarantee and other terms remaining the same as those on the last year of their original term. None of these agreements have yet been signed. As of January 1, 2015, the maximum potential amount of future payments the Company could be required to make pursuant to the minimum revenue guarantees is \$37.0 million over the remaining terms of the network affiliate agreements, which calculation does not include any potential extensions offered subsequent to January 1, 2015. As of January 1, 2015, the Company had an inconsequential amount of liabilities recorded for these obligations and as of December 26, 2013, the Company had no liabilities recorded for these obligations, as such guarantees are less than the expected share of revenue paid to the affiliate.

Merger Termination Payment As described above, on May 5, 2014, the Company entered into the Merger Agreement to merge with Screenvision, and on November 3, 2014, the DOJ filed a lawsuit seeking to enjoin the proposed merger. If prior to May 5, 2015 (or 90 days thereafter if extended by the Company or Screenvision), certain conditions to the merger are not fulfilled, the merger is prohibited by law or a final non-appealable government order, or if the Company materially breaches its representations or covenants such that the closing conditions in the Merger Agreement cannot be satisfied, Screenvision may be able to terminate the Merger Agreement and, upon termination, the Company may be required to pay a termination fee of approximately \$28.8 million. NCM LLC would indemnify NCM, Inc. and bear a pro rata portion of this fee based upon NCM, Inc.'s ownership percentage in NCM LLC, with NCM LLC's founding members bearing the remainder of the fee in accordance with their ownership percentage in NCM LLC. If Screenvision or its affiliates materially breach their representations or covenants such that the closing conditions in the Merger Agreement cannot be satisfied, they will be required to pay NCM, Inc. a termination fee of \$10 million, and if Screenvision is subsequently sold within one year of the termination, an additional amount equal to the amount by which the sale proceeds are greater than \$385 million will be paid to NCM, Inc. up to a maximum of \$28.8 million (including the \$10 million). As of January 1, 2015, the Company did not have a liability recorded for this termination fee.

14. FAIR VALUE MEASUREMENTS

Non-Recurring Measurements Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. These assets include long-lived assets, intangible assets, cost and equity method investments, notes receivable and borrowings.

Long-Lived Assets, Intangible Assets, Other Investments and Notes Receivable As described in Note 1 *Basis of Presentation and Summary of Significant Accounting Policies*, the Company regularly reviews long-lived assets (primarily property, plant and equipment), intangible assets, investments accounted for under the cost or equity method and notes receivable for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. When the estimated fair value is determined to be lower than the carrying value of the asset, an impairment charge is recorded to write the asset down to its estimated fair value.

As of January 1, 2015 and December 26, 2013, the Company had other investments of \$2.5 million and \$1.1 million, respectively. The fair value of these investments has not been estimated as of January 1, 2015 as there

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were no identified events or changes in the circumstances that had a significant adverse effect on the fair value of the investments and it is not practicable to do so because the equity securities are not in publicly traded companies. Refer to Note 1 *Basis of Presentation and Summary of Significant Accounting Policies* for more details. As the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs, they have been classified as Level 3 in the fair value hierarchy.

As of January 1, 2015, the Company had notes receivable totaling \$20.8 million from its founding members related to the sale of Fathom Events, as described in Note 2 *Divestiture*. These notes were valued using comparative market multiples. There were no identified events or changes in circumstances that had a significant adverse effect on the fair value of the notes receivable. The notes are classified as Level 3 in the fair value hierarchy as the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs.

Borrowings The carrying amount of the revolving credit facility is considered a reasonable estimate of fair value due to its floating-rate terms. The estimated fair values of the Company's financial instruments where carrying values do not approximate fair value are as follows (in millions):

	As of January 1, 2015		As of December 26, 2013	
	Carrying Value	Fair Value (1)	Carrying Value	Fair Value (1)
Term Loans	\$ 270.0	\$ 257.9	\$ 270.0	\$ 269.5
Senior Unsecured Notes	200.0	210.8	200.0	220.4
Senior Secured Notes	400.0	400.8	400.0	414.0

(1) The Company has estimated the fair value on an average of at least two non-binding broker quotes and the Company's analysis. If the Company were to measure the borrowings in the above table at fair value on the balance sheet they would be classified as Level 2.

Recurring Measurements The fair values of the Company's assets and liabilities measured on a recurring basis pursuant to ASC 820-10 *Fair Value Measurements and Disclosures* are as follows (in millions):

	Fair Value Measurements at Reporting Date Using			
	As of January 1, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Cash equivalents (1)	\$ 2.5	\$ 2.5	\$	\$
Short-term marketable securities (2)	21.7	9.5	12.2	
Long-term marketable securities (2)	45.5	41.5	4.0	
Total assets	\$ 69.7	\$ 53.5	\$ 16.2	\$

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	Fair Value Measurements at Reporting Date Using			
	As of December 26, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Cash equivalents (1)	\$ 28.3	\$	\$ 28.3	\$
Short-term marketable securities (2)	71.3	4.5	66.8	
Total assets	\$ 99.6	\$ 4.5	\$ 95.1	\$

- (1) *Cash Equivalents* The Company's cash equivalents are carried at estimated fair value. Cash equivalents consist of money market accounts which the Company has classified as Level 1 given the active market for these accounts and commercial paper with original maturities of three months or less, which are classified as Level 2 and are valued as described below.
- (2) *Short-Term and Long-Term Marketable Securities* The carrying amount and fair value of the marketable securities are equivalent since the Company accounts for these instruments at fair value. The Company's government agency bonds, commercial paper and certificates of deposit are valued using third party broker quotes. The value of the Company's government agency bonds is derived from quoted market information. The inputs in the valuation are generally classified as Level 1 given the active market for these securities; however if an active market does not exist, the inputs are recorded at a lower level in the fair value hierarchy. The value of commercial paper and certificates of deposit is derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy. For the years ended January 1, 2015 and December 26, 2013, there was an inconsequential amount of net realized gains (losses) recognized in interest income and an inconsequential amount of net unrealized holding gains (losses) included in other comprehensive income. Original cost of short term marketable securities is based on the specific identification method. As of January 1, 2015 and December 26, 2013, there were no gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer.

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The amortized cost basis, aggregate fair value and maturities of the marketable securities the Company held as of January 1, 2015 and December 26, 2013 are as follows:

	As of January 1, 2015		
	Amortized Cost Basis (in millions)	Aggregate Fair Value (in millions)	Maturities (1) (in years)
MARKETABLE SECURITIES:			
Short-term municipal bonds	\$ 9.4	\$ 9.5	0.5
Short-term commercial paper:			
Financial	3.4	3.4	
Industrial	3.3	3.3	0.1
Utility	3.0	3.0	0.2
Short-term certificates of deposit	2.5	2.5	0.6
Total short-term marketable securities	21.6	21.7	
Long-term U.S. government treasury bonds	5.1	5.1	2.7
Long-term municipal bonds	0.3	0.3	1.4
Long-term U.S. government agency bonds	36.1	36.1	3.3
Long-term certificates of deposit	4.0	4.0	3.1
Total long-term marketable securities	45.5	45.5	
Total marketable securities	\$ 67.1	\$ 67.2	

	As of December 26, 2013		
	Amortized Cost Basis (in millions)	Aggregate Fair Value (in millions)	Maturities (1) (in years)
MARKETABLE SECURITIES:			
Short-term municipal	\$ 4.5	\$ 4.5	0.2
Short-term commercial paper:			
Financial	50.3	50.3	0.3
Industrial	8.8	8.8	0.1
Utility	7.7	7.7	0.1
Total marketable securities	\$ 71.3	\$ 71.3	

(1) *Maturities* Securities available for sale include obligations with various contractual maturity dates some of which are greater than one year. The Company considers the securities to be liquid and convertible to cash within 30 days.

15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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During 2012, NCM LLC terminated interest rate swap agreements that were used to hedge its interest rate risk associated with its term loans. Following the termination of the swap agreements, the variable interest rate on NCM LLC's \$270.0 million term loans are unhedged and as of January 1, 2015 and December 26, 2013, the Company did not have any outstanding derivative assets or liabilities.

During the year ended December 27, 2012, NCM LLC paid breakage fees of \$63.4 million which represented the settlement of NCM LLC's loss position on its interest rate swap agreements. The swaps were terminated with NCM LLC in a loss position and therefore, NCM LLC paid its counterparties the outstanding

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amounts due based upon the fair market value on that date. The Company accounted for the \$63.4 million in payments by recording a loss on swap terminations of \$26.7 million in the Consolidated Statements of Income, which related to swaps that hedged the interest payments on debt that was paid off during NCM LLC's refinancing. Since those future interest payments were no longer probable of occurring, the Company discontinued hedge accounting and immediately reclassified the balance in AOCI of \$26.7 million into earnings in accordance with ASC 815 *Derivatives and Hedging* (ASC 815). The remainder of the breakage fees, or \$36.7 million, was for swaps in which the underlying debt remained outstanding. The balance in AOCI related to these swaps was fixed and is being amortized into earnings over the remaining life of the original interest rate swap agreement, or February 13, 2015, as long as the debt remains outstanding. The Company considered the guidance in ASC 815 which states that amounts in AOCI shall be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. As of January 1, 2015, there was approximately \$1.6 million outstanding related to these discontinued cash flow hedges which continues to be reported in AOCI, which the Company estimates will be amortized to earnings in the first quarter of 2015.

During the years ended December 26, 2013 and December 27, 2012, the Company also recorded changes in the fair value and amortization of AOCI related to an interest rate swap on its term loan in which the Company discontinued cash flow hedge accounting in 2008 due to the bankruptcy of its counterparty.

The effect of derivative instruments in cash flow hedge relationships on the audited Consolidated Financial Statements for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 were as follows (in millions):

	Unrealized Gain Recognized in NCM, Inc.'s Other Comprehensive Income (Pre-tax) Years Ended			Realized Loss Recognized in Interest on Borrowings (Pre-tax) Years Ended		
	January 1, 2015	December 26, 2013	December 27, 2012	January 1, 2015	December 26, 2013	December 27, 2012
Interest Rate Swaps	\$ 10.0	\$ 10.3	\$ 26.0	\$	\$	\$ (9.1)

The effect of derivatives not designated as hedging instruments under ASC 815 on the audited Consolidated Financial Statements for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 were as follows (in millions):

Derivative Instruments not Designated as Hedging Instruments	Income Statement Location	Gain (Loss) Recognized in Non- Operating Expenses (Pre-tax) Years Ended		
		January 1, 2015	December 26, 2013	December 27, 2012
Realized loss on derivative instruments	Interest on borrowings	\$	\$	\$ (5.1)
Gain from change in fair value on cash flow hedges	Change in derivative fair value			3.0
Amortization of AOCI on discontinued cash flow hedges	Amortization of terminated derivatives	(10.0)	(10.3)	(4.0)
Total		\$ (10.0)	\$ (10.3)	\$ (6.1)

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The changes in AOCI by component for the year ended January 1, 2015 were as follows (in millions):

	Year Ended		Income Statement Location
	January 1, 2015	December 26, 2013	
Balance at beginning of period	\$ (3.2)	\$ (6.7)	
Amounts reclassified from AOCI:			
Amortization on discontinued cash flow hedges	10.0	10.3	Amortization of terminated derivatives
Total amounts reclassified from AOCI	10.0	10.3	
Noncontrolling interest on reclassifications	(5.4)	(5.6)	
Tax effect on reclassifications	(1.8)	(1.8)	
Net other comprehensive income	2.8	2.9	
Impact of subsidiary ownership changes		0.6	
Balance at end of period	\$ (0.4)	\$ (3.2)	

16. SEGMENT REPORTING

Advertising revenue accounted for 100.0%, 92.1% and 91.2%, of consolidated revenue for the years ended January 1, 2015, December 26, 2013 and December 27, 2012, respectively. The following tables present revenue, less directly identifiable expenses to arrive at income before income taxes for the advertising reportable segment, the combined Fathom Events operating segments (disposed on December 26, 2013), and network, administrative and unallocated costs. Refer to Note 1 *Basis of Presentation and Summary of Significant Accounting Policies*.

	Year Ended January 1, 2015 (in millions)			
	Advertising	Fathom Events (1)	Network, Administrative and Unallocated Costs	Consolidated
Revenue	\$ 394.0	\$	\$	\$ 394.0
Operating costs	97.0		18.3	115.3
Selling and marketing costs	54.8		2.8	57.6
Administrative and other costs	2.8		34.2	37.0
Depreciation and amortization			32.4	32.4
Interest and other non-operating costs			76.2	76.2
Income (loss) before income taxes	\$ 239.4	\$	\$ (163.9)	\$ 75.5

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	Year Ended December 26, 2013 (in millions)			
	Advertising	Fathom Events (1)	Network, Administrative and Unallocated Costs	Consolidated
Revenue	\$ 426.3	\$ 36.5	\$	\$ 462.8
Operating costs	98.4	25.5	19.4	143.3
Selling and marketing costs	56.1	3.6	1.8	61.5
Administrative and other costs	2.9	0.9	25.6	29.4
Depreciation and amortization			26.6	26.6
Interest and other non-operating costs			52.0	52.0
Income (loss) before income taxes	\$ 268.9	\$ 6.5	\$ (125.4)	\$ 150.0

	Year Ended December 27, 2012 (in millions)			
	Advertising	Fathom Events (1)	Network, Administrative and Unallocated Costs	Consolidated
Revenue	\$ 409.5	\$ 39.3	\$	\$ 448.8
Operating costs	95.8	29.0	19.8	144.6
Selling and marketing costs	53.9	4.2	2.4	60.5
Administrative and other costs	2.6	0.8	28.1	31.5
Depreciation and amortization			20.4	20.4
Interest and other non-operating costs			99.8	99.8
Income (loss) before income taxes	\$ 257.2	\$ 5.3	\$ (170.5)	\$ 92.0

The following is a summary of revenue by category (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
National advertising revenue	\$ 258.8	\$ 295.0	\$ 288.7
Local and regional advertising revenue	96.8	89.9	81.1
Founding member advertising revenue from beverage concessionaire agreements	38.4	41.4	39.7
Fathom Consumer revenue (1)		34.4	34.2
Fathom Business revenue (1)		2.1	5.1
Total revenue	\$ 394.0	\$ 462.8	\$ 448.8

(1) Fathom Events was sold on December 26, 2013 as discussed in Note 9 *Related Party Transactions*.

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The Company's valuation allowance for doubtful accounts and deferred tax assets for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 were as follows (in millions):

	January 1, 2015	Years Ended December 26, 2013	December 27, 2012
ALLOWANCE FOR DOUBTFUL ACCOUNTS:			
Balance at beginning of period	\$ 5.7	\$ 4.5	\$ 4.3
Provision for bad debt	(0.1)	2.1	1.2
Write-offs, net	(1.3)	(0.9)	(1.0)
Balance at end of period	\$ 4.3	\$ 5.7	\$ 4.5
 VALUATION ALLOWANCE ON DEFERRED TAX ASSETS:			
Balance at beginning of period	\$	\$ 3.3	\$ 3.2
Valuation allowance (reversed) recorded		(3.3)	
Adjustment			0.1
Balance at end of period	\$	\$	\$ 3.3

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents selected information from the Company's unaudited quarterly Consolidated Statements of Income for the years ended January 1, 2015 and December 26, 2013 (in millions, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Revenue	\$ 70.2	\$ 99.9	\$ 100.8	\$ 123.1
Operating expenses	57.4	59.6	60.1	65.2
Operating income	12.8	40.3	40.7	57.9
Consolidated net (loss) income	(4.6)	17.9	19.4	32.9
(Loss) Net income attributable to NCM, Inc.	(3.1)	3.6	4.8	8.1
(Loss) Earnings per NCM, Inc. share, basic (1)	(0.05)	0.06	0.08	0.14
(Loss) Earnings per NCM, Inc. share, diluted (1)	(0.05)	0.06	0.08	0.14
2013				
Revenue	\$ 82.2	\$ 122.8	\$ 135.1	\$ 122.7
Operating expenses	60.6	64.8	67.7	67.7
Operating income	21.6	58.0	67.4	55.0
Consolidated net income (2)	1.9	32.0	42.3	53.6
(Loss) Net income attributable to NCM, Inc. (2)	(1.0)	9.5	13.7	19.0

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(Loss) Earnings per NCM, Inc. share, basic (1)(2)	(0.02)	0.17	0.24	0.35
(Loss) Earnings per NCM, Inc. share, diluted (1)(2)	(0.02)	0.17	0.24	0.34

- (1) Earnings per share in each quarter is computed using the weighted-average number of common shares outstanding during that quarter while earnings per share for the full year is computed using the weighted average number of common shares outstanding during the year.

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(2) During the fourth quarter of 2013, the Company recorded a gain of \$25.4 million related to the sale of Fathom Events. Refer to Note 2 *Divestiture*.

19. SUBSEQUENT EVENT

On January 21, 2015, the Company declared a cash dividend of \$0.22 per share (approximately \$13.0 million) on each share of the Company's common stock (not including outstanding restricted stock which will accrue dividends until the shares vest) to stockholders of record on March 12, 2015 to be paid on March 26, 2015.